FEBRUARY 2026

Q1/ 2026 INVESTMENT COMMENTARY: FROM CONCENTRATION TO COMPLEXITY

From a market perspective, despite all the risks around tariffs and inflation, in our observation 2025 was less about headline volatility and more about a meaningful shift in underlying market leadership. After several years of U.S. dominance, 2025 global equity returns broadened materially, both geographically and by style factor. While the Magnificent Seven continued to perform well, they were no longer the only game in town. In fact, Canadian and international markets significantly outperformed U.S. equities last year, aided by a weakening U.S. dollar and improving relative growth expectations outside North America. Further tailwinds to international equities' relative outperformance were provided by geopolitical tensions which have seen a deliberate rebalancing away from the U.S. market. And both within the U.S. and globally, equity market returns became less concentrated overall, with performance expanding beyond the largest technology companies as valuation sensitivity increased and investors rotated toward more cyclical and value-oriented sectors where valuations were more muted from a historical perspective.

ARTIFICIAL INTELLIGENCE WASN'T THE ONLY MARKET FORCE LAST YEAR

Looking back, we can identify four main drivers that propelled market performance in 2025:

- First, inflation continued to moderate, allowing central banks to shift from restrictive policy toward cautious easing. While the path was uneven, the direction of travel was clear, and financial conditions gradually loosened.
- Second, earnings proved more resilient than expected, reinforcing the view that any economic slowdown would likely be modest rather than severe.
- Third, currency dynamics played an unusually important role, with U.S. dollar weakness impacting portfolio returns meaningfully and potentially diminishing the dollar's historical role as a portfolio hedge. This development had a knock-on effect as it was a dominant driver for the rally in gold prices as investors looked to position themselves against possible U.S. dollar debasement.
- Finally, the AI theme remained a dominant force as accelerating investment in data centers, semiconductors, and supporting infrastructure reinforced earnings expectations for large technology firms, and spilled over into a broader set of beneficiaries across the market.

While these developments were supportive of asset prices in general, they also reinforced a broader conclusion: the market environment is becoming more complex, less forgiving, and more sensitive to macro cross-currents than in recent years. It is this conclusion that dominates our thinking as we enter a new year.

THE YEAR AHEAD – SOME EMERGING THEMES

As we look ahead, we think there are several structural themes that warrant close attention: the post-globalization paradigm shift continues to unfold, with supply chains becoming more regional, fiscal policy playing a larger role in economic outcomes, and geopolitical considerations increasingly influencing capital allocation. For manufacturers, this environment favors economic resilience over operational efficiency and may prove structurally more inflationary over time. Pair this with inflated government borrowing - particularly in the U.S. and Europe - and the potential exists for inflationary pressures to return.

At the same time, AI remains a powerful but increasingly nuanced theme. In 2025, accelerating investment in data centres, power infrastructure, and specialized semiconductors reinforced confidence in the long-term growth potential of the technology ecosystem, while also marking a clear departure from the asset-light growth models that dominated the past decade. As technology companies become more capital-intensive, markets are beginning to differentiate between those able to convert AI investment into sustainable earnings growth and those facing margin pressure, regulatory scrutiny, or diminishing returns on invested capital. In other words, the AI boom is maturing, and the distinction between long-term winners and losers is likely to become more pronounced.

AI MAY COMPLICATE MONETARY POLICY WITH IMPLICATIONS FOR ASSET MARKET CORRELATIONS

Monetary policy adds another layer of uncertainty. Central banks, particularly the U.S. Federal Reserve, may face growing tension between their dual mandate of grounding inflation and maximizing employment. In part due to the implications of AI, labour markets are showing signs of softening even as inflation remains above target, increasing the risk of policy missteps.

This “tightrope” dynamic suggests that interest rates may remain volatile and that correlations between asset classes could behave differently than investors have become accustomed to. We have already seen this sort of rate volatility influence market dynamics this year.

PORTFOLIO CONSTRUCTION CHALLENGES

Against this backdrop, valuations across many asset classes appear priced to perfection , leaving limited margin for error. As we have discussed with many clients recently, portfolios, in aggregate, remain heavily exposed to a narrow set of equity-rewarding drivers: U.S. growth, technology leadership, multiple expansion, and a stable policy environment. These exposures have been effective over the past cycle and have rewarded investors accordingly. But they have also built concentration towards drivers that may prove less reliable as structural risks rise and macro dispersion increases.

As a result, diversification is once again becoming a central portfolio consideration rather than a theoretical one. Importantly, this extends beyond simple geographic diversification within equities. We firmly believe that investors will increasingly benefit from exposure to assets whose return drivers are less dependent on economic growth, equity multiples, or benign inflation outcomes. Real assets, select credit strategies, unique private investments, and other alternative sources of return may play a more meaningful role as buffers against macro volatility, policy uncertainty, and shifting correlations.

THE NEED FOR A MORE DURABLE ASSET MIX

As we look ahead, the objective is not to predict every twist in the market, but to ensure portfolios are built to navigate a wider range of outcomes than investors have faced in recent years. We feel that the next phase of this cycle is likely to reward preparation, balance, and flexibility more than bold conviction in any single theme.

This is where our role as your advisor becomes especially important. In periods of transition, it is easy for portfolios to drift toward familiar exposures or recent winners - this is a natural bias that is hard wired into most investors’ brains.

However, our focus is to remain disciplined - continuously reassessing risks, questioning assumptions, and identifying sources of return that behave differently when markets become more unsettled. That includes seeking out assets that can help stabilize portfolios when traditional equity drivers are under pressure.

THE NEED FOR A MORE DURABLE ASSET MIX (CONT'D)

Markets will continue to evolve, often in ways that feel uncomfortable in the moment. Our commitment is to help you stay focused on long-term objectives, make thoughtful adjustments when warranted, and ensure your portfolio remains aligned with both your goals and the realities of the environment ahead.

ABOUT RICHTER

Richter is a **Business | Family Office** providing strategic advice on business matters and on families' financial objectives across generations.

Driven to help business owners build long-lasting legacies, we bridge the gap between family and business interests. Each demands a particular way of thinking, and the way we integrate these two areas ensures entrepreneurial success.

Through our **Family Office platform**, we provide integrated and strategic investment advice aligned with each family's long-term vision. Our approach combines portfolio construction, private and public market expertise, governance, and risk management to ensure investment decisions support both enterprise value and multigenerational wealth objectives.
By coordinating investment strategy with broader business and family priorities, we help families make informed, disciplined decisions across market cycles.

Richter is uniquely positioned to advise the most successful entrepreneurs, private clients, business owners and business families, helping them shape their legacy for the future.

MONTRÉAL

1981 McGill College
Montréal QC H3A 0G6
514.934.3400

TORONTO

181 Bay St., #3510
Bay Wellington Tower
Toronto ON M5J 2T3
416.488.2345

CHICAGO

200 South Wacker, #3100
Chicago IL 60606
312.828.0800